UNITED NATIONS

Framework Convention on Climate Change

Distr.
GENERAL

FCCC/CP/1999/3
8 October 1999

Original: ENGLISH

CONFERENCE OF THE PARTIES
Fifth session
Bonn, 25 October - 5 November 1999
Item 10 (a) of the provisional agenda

REVIEW OF THE IMPLEMENTATION OF COMMITMENTS AND OF OTHER PROVISIONS OF THE CONVENTION

FINANCIAL MECHANISM

Report of the Global Environment Facility to the Conference of the Parties at its fifth session

Note by the secretariat

1. The Conference of the Parties (COP), at its second session, by decision 12/CP.2,[1] adopted and thereby brought into force a Memorandum of Understanding (MOU) between the COP and the Council of the Global Environment Facility (GEF) (FCCC/CP/1995/7/Add.1). The MOU provides, *inter alia*, that annual reports of the GEF be made available to the COP through the secretariat. The attached report[2] has been submitted by the GEF secretariat in response to that provision.[3] The MOU further provides that, in accordance with Article 11.1 of the Convention, the COP will, after each of its sessions, communicate to the GEF any policy guidance approved concerning the financial mechanism.

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[1] For the full texts of decisions adopted by the Conference of the Parties at its second session, see document FCCC/CP/1996/15/Add.1.

[2] Attached in the languages received: English, French and Spanish.

[3] The report is reproduced as submitted, and without formal editing.

Annex

Global Environment Facility

September 3, 1999

REPORT OF THE GEF
TO THE FIFTH SESSION OF THE CONFERENCE OF THE PARTIES
TO THE UNITED NATIONS
FRAMEWORK CONVENTION ON CLIMATE CHANGE

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I. INTRODUCTION

1. The *Memorandum of Understanding Between the Conference of the Parties to the United Nations Framework Convention on Climate Change and the Council of the Global Environment Facility* [1] provides that the GEF will report to the Conference of the Parties on all GEF-financed activities carried out in implementing the Convention. In particular, paragraph 7 provides:

> In its reporting on GEF-financed activities under the financial mechanism, the GEF should include specific information on how it has applied the guidance and decisions of the COP in its work related to the Convention. This report should be of a substantive nature and incorporate the program of GEF activities in the areas covered by the Convention and an analysis of how the GEF, in its operations related to the Convention, has implemented the policies, program priorities, and eligibility criteria established by the COP. In particular, a synthesis of the different projects under implementation and a listing of the projects approved by the Council in the climate change focal area as well as a financial report with an indication of the financial resources required for those projects should be included. The Council should also report on its monitoring and evaluation activities concerning projects in the climate change focal area.

2. This report has been prepared for the fifth session of the Conference of the Parties to the UN Framework Convention on Climate Change. It covers the period from July 1, 1998 to June 30, 1999 (GEF Fiscal Year 1999). This report describes GEF activities approved by the Council during the reporting period in the areas covered by the Convention and provides specific information on how the GEF has applied the guidance and decisions of the Conference of the Parties in its work related to the Convention. For easier reference, a listing of reports previously provided by the GEF Council to the Conference of the Parties is included in the Annex A. These reports contain information on GEF activities in prior years.

3. The Parties' attention is also drawn to the following GEF publications which the GEF has made available to the fifth session of the Conference of the Parties to supplement the information contained in this report:

(a) *Global Environment Facility 1998 Annual Report* (available in English, French, and Spanish);

(b) *Operational Report on GEF Programs*, June 1999 (available in English)[2];

(c) *Project Performance Report 1998* (available in English, French, and Spanish).

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[1] See Decision 12/CP.2 (FCCC/CP/1996/15/Add.1), *Memorandum of Understanding between the Conference of the Parties and the Council of the Global Environment Facility* and Decision on Agenda Item 11, *Joint Summary of the Chairs of the GEF Council Meeting*, April/May 1997.

[2] This report provides a listing of projects approved in the climate change area as well as a financial report with an indication of the financial resources required for those projects.

II. PROJECT ACTIVITIES IN THE CLIMATE CHANGE AREA

4. In the reporting period, the following GEF financing was allocated for project activities in the climate change area:

Table 1: Project Financing in the Climate Change Area (July 1998 - June 1999)

Type of activity	Number of activities	GEF financing (in US$ millions)	Co-financing (in US$ millions)	Total financing (in US$ millions)
Project preparation	20	5.65	4.25	9.90
Enabling activities	21	5.43		5.43
Other projects	26	104.12	415.05	519.17
Total	**67**	**115.2**	**419.30**	**534.5**

5. As indicated in Table 1, total project financing for climate change activities during the reporting period exceeded US$534 million, of which GEF provided US$115 million in grant financing. Approximately US$420 million was leveraged in co-financing for the project activities from bilateral agencies, recipient countries, and the private sector.

6. Since the establishment of the GEF as a pilot program in 1991, a total of US$5.7 billion has been allocated to climate change activities. Of this sum, US$991 million was provided in grants from the GEF Trust Fund. An additional US$4.7 billion was contributed through co-financing. A complete listing of GEF project activities in the climate change area is contained in the June 1999 *Operational Report on GEF Programs*, which is available to the fifth session of the Conference of the Parties. A synthesis of the different projects under implementation in the area of climate change is included in Annex B. Of the US$991 million cited above, approximately US$940 million was for projects in Non-Annex-I countries, while US$51 million was allocated to Annex I countries undergoing the process of transition to a market economy. When the GEF provides assistance to the latter, it ensures that such assistance is fully consistent with the guidance provided by the Conference of the Parties to the UNFCCC.[3]

7. Often, as a first step in project development, the GEF provides financing through its Project Preparation and Development Facility to assist recipient countries to develop a project concept into a project proposal. Table 2 shows GEF project preparation activities approved during the reporting period.

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[3] Global Environment Facility, *Operational Strategy*, p.31.

Table 2: Project Preparation Activities
(July 1998 - June 1999)

COUNTRY	PROJECT NAME	GEF FINANCING (IN US$ MILLIONS)	TOTAL FINANCING (IN US$ MILLIONS)
Regional	Caribbean Renewable Energy Development Project	0.31	0.50
Regional* (Central/Eastern Europe, Bulgaria, Czech Republic, Hungary, Poland, Romania, Slovakia)	Establishing Monitoring and Targeting Energy Service Companies in Central/ Eastern Europe	0.34	0.54
Regional* (Estonia, Latvia, Lithuania)	Baltic Wind Energy Programme	0.26	0.32
Armenia	Removing Barriers to Energy Efficiency in Municipal and Hot Water Supply	0.21	0.30
Armenia	Yerevan Geothermal Pilot Project	0.35	0.50
Costa Rica	National Off-Grid Electrification Programme Based on Renewable Energy Sources	0.17	0.23
Bhutan	Removing Barriers to Mini and Micro Hydropower Development for Decentralized Rural Electrification	0.23	0.39
Chile	Removing Barriers to Rural Electrifiction with Renewable Energy	0.08	0.12
Egypt	Integrated System for Zero or Reduced Emission Fuel Cell Bus Operation in Cairo	0.32	0.42
Georgia	Removing Barriers to Energy Efficiency in Municipal and Hot Water Supply	0.21	0.32
Iran	Renewable Energy Project	0.35	0.64
Kazakhstan	Capacity Building to Reduce Key Barriers to Energy Efficiency in Heat and Hot Water Supply	0.23	0.39
Lebanon	Improved Landfill Gas Management	0.34	0.48
Mexico	Methane Gas Capture and Use at a Landfill Demonstration Project	0.30	0.75
Mexico	Integrated Solar Combined Cycle System Project	0.35	0.75
Mexico	Project to Demonstrate Fuel Cell	0.34	0.61

	Buses and an Associated Fuel Supply System in Mexico City		
Morocco	Solar-Based Thermal Plant (PDF C)	0.70	1.83
Poland*	Polish Energy Efficiency Motors Programme	0.19	0.29
Ukraine*	Removing Barriers to Greenhouse Gas Emissions Mitigation through Energy Efficiency in the District Heating System	0.21	0.31
Zimbabwe	Removal of Barriers to Energy Efficiency Improvements and Associated Reduction in Zimbabwean Industry	0.16	0.21
Total		**5.65**	9.90

* Annex I countries.

8. Enabling activities covering 21 Non-Annex I countries have been approved during the reporting period under expedited procedures (see Table 3).

Table 3: Enabling Activities
(July 1998 - June 1999)

COUNTRY	PROJECT NAME	GEF FINANCING (IN US$ MILLIONS)
Bangladesh	Preparation of Initial National Communication in Response to UN Framework Convention on Climate Change	0.18
Benin	Preparation of the First National Communication to the UNFCCC	0.10
Bolivia	Enabling Bolivia to Prepare Its Initial National Communication in Response to Commitments to the UNFCCC	0.19
Burundi	Preparation of the First National Communication to the UNFCCC	0.32
Colombia	Enabling The Republic of Colombia to Prepare Its Initial National Communication in Response to Commitments to the UNFCCC	0.35
Comoros	Enabling Activities for the Preparation of Initial National Communication Related to UN Framework Convention on Climate Change	0.31
Congo	Preparation of the First National Communication to the UNFCCC	0.32

COUNTRY	PROJECT NAME	GEF FINANCING (IN US$ MILLIONS)
Cuba	Enabling Cuba to Prepare Its Initial National Communication to the UNFCCC	0.15
Djibouti	Enabling Activities for the Preparation of Initial National Communication Related to the UN Framework Convention on Climate Change	0.31
Dominican Republic	Enabling the Dominican Republic to Prepare Its First National Communication to the UNFCCC	0.35
Ecuador	Enabling Ecuador to Prepare Its First National Communication to the UNFCCC	0.22
Gabon	Preparation of the First National Communication to the UNFCCC	0.32
Grenada	Enabling Grenada to Prepare Its Initial National Communication in Response to Its Commitments to the UNFCCC	0.18
Kenya	Enabling Activities for the Preparation of Initial National Communication Related to UN Framework Convention on Climate Change	0.17
Madagascar	Enabling Madagascar to Prepare Its Initial National Communication in Response to the United Nations Framework Convention on Climate Change	0.35
Mongolia	Preparation of Initial National Communication in Response to UN Framework Convention on Climate Change	0.24
Pakistan	Enabling Activities for the Preparation of Initial National Communication Related to the UN Framework Convention on Climate Change	0.27
Paraguay	Enabling Paraguay to Prepare Its First National Communication to the UNFCCC	0.19
Suriname	Enabling Suriname to Prepare Its Initial National Communication in Response to the UNFCCC	0.35
The F.Y.R. of Macedonia	Enabling the F.Y.R. of Macedonia to Prepare Its First National Communication in Response to Its Commitments to the UNFCCC	0.35
Vietnam	Enabling Activities for the Preparation of Initial National Communication Related to UN Framework Convention on Climate Change	0.21
Total		**5.43**

9. Table 4 lists the other climate change projects approved by the GEF Council during the reporting period.

Table 4: Projects*
(July 1998-June 1999)

COUNTRY	PROJECT NAME	GEF FINANCING (IN US$ MILLIONS)	TOTAL FINANCING (IN US$ MILLIONS)
Global	Solar Development Corporation	10.00	50.00
Global	Redirecting Commercial Investment Decisions to Cleaner Technologies – A Technology Transfer Clearinghouse	0.75	0.93
Argentina	Efficient Street Light Program (IFC)	0.73	30.00
Benin	Decentralized Rural Energy Project	1.14	5.75
China	Energy Conservation and GHG Emission Reduction in Chinese Township and Village Enterprises (TVE), Phase 2	9.00	19.55
Cote d'Ivoire	Energy Efficiency Service Market	0.69	0.90
Czech Republic**	Low-Cost/Low-Energy Buildings in the Czech Republic	0.44	1.42
Fiji	Renewable Energy Hybrid Power Systems	0.74	1.43
Kenya	Removal of Barriers to Energy Conservation and Energy Efficiency in Small and Medium Scale Enterprises (SME)	3.19	8.28
Lebanon	Barrier Removal of Cross-Sectoral Energy Efficiency	3.40	5.40
Malawi	Barrier Removal to Malawi Renewable Energy Programme	3.42	10.72
Mexico	Oaxaca Sustainable Hillside Management Project	0.74	1.57
Mexico	Renewable Energy for Agriculture	8.70	26.20
Morocco	Market Development for Solar Water Heaters	2.97	5.37
Morocco	Solar-Based Thermal Plant	31.70	114.36
Philippines	CEPALCO Distributional Generation PV Power Plant	4.03	8.00
Poland**	Zakopane Geothermal District	5.40	84.70

COUNTRY	PROJECT NAME	GEF FINANCING (IN US$ MILLIONS)	TOTAL FINANCING (IN US$ MILLIONS)
	Heating and Environment		
Slovakia**	Chemsovit Cogeneration Project	2.20	18.40
Slovenia**	Removing Barriers to Increased Use of Biomass as an Energy Source	4.40	12.34
South Africa	Concentrating Solar Power for Africa Study	0.23	0.41
Sudan	Barrier Removal to Secure PV Market Penetration in Semi-Urban Sudan	0.75	1.71
Syria	Increasing the Efficiency of the Hydrocarbon Sector by using Waste Gas for Transport	0.75	1.70
Thailand	Building Chiller Replacement Program	2.5	90.5
The F.Y.R. of Macedonia	Development of Mini-Hydropower Plants	0.75	5.65
Togo	Decentralized Rural Energy Project	1.14	5.75
Tunisia	Experimental Validation of Building Codes and Removal of Barriers to their Adoption	4.36	8.13
Total		**104.12**	**519.17**

* Please see the *Operational Report of the GEF Programs, June 1999*, for more detailed project information. The co-financing details of individual projects can be found by accessing the work program on the GEF Website. To determine the appropriate work program, refer to the column marked "WP Entry" in the *Operational Report*.
** Annex I countries.

III. IMPLEMENTATION OF CONVENTION GUIDANCE

10. Guidance to the financial mechanism concerning policies, program priorities, and eligibility criteria is contained in:

(a) Decision 11/CP.1 (FCCC/CP.1995/7/Add.1) *Initial guidance on policies, programme priorities and eligibility criteria to the operating entity or entities of the financial mechanism;*

(b) Decision 12/CP.1 (FCCC/CP/1995/7/Add.1) *Report of the Global Environment Facility to the Conference of the Parties on the development of an operational strategy and on initial activities in the area of climate change*;

(c) Decision 10/CP.2 (FCCC/CP/1996/15/Add.1) *Communications from the Parties not included in Annex I to the Convention: guidelines, facilitation and process for consideration;*

(d) Decision 11/CP.2 (FCCC/CP/1996/15/Add.1) *Guidance to the Global Environment Facility*; and

(e) Decision 2/CP.4 (FCCC/CP/1998/16/Add.1) *Additional guidance to the operating entity of the financial mechanism.*

11. In addition, the Conference of the Parties at its fourth session adopted two other related decisions: Decision 3/CP.4 *Review of the financial mechanism* and Decision 12/CP.4 *Initial national communications from Parties not included in Annex I to the convention.*

12. The GEF report to the Conference of the Parties at its fourth session stated that "the policies and program priorities identified in Decision 11/CP.1 are fully reflected in the GEF Operational Strategy and the Operational Programs, and have been consistently followed in developing project activities."[4] The following GEF activities undertaken during this reporting period are responsive to the guidance of the Conference of the Parties, and in particular demonstrate initial steps to respond to the guidance of the COP 4.

13. The GEF has reported in its previous reports to the Conference of the Parties (see Annex A) on steps it has taken to implement the guidance contained in Decision 11/CP.2 through its financing for enabling activities. During the reporting period, national enabling activity projects covering 21 countries were approved (see Table 3). To date, financing for enabling activities in 127 Non-Annex I countries and seven Annex I countries has been approved.[5] All these projects have been developed with the full collaboration of the recipient country Parties, and to varying extent, all these projects provide assistance for the preparation of national communications.

14. The global project entitled, *National Communications Support Programme*, approved by the Council during the previous reporting period aims to improve the quality, comprehensiveness, and timeliness of the initial communications from Non-Annex I Parties. After the organization of a number of thematic and regional workshops, the UNDP Support Programme team is reviewing the program in light of countries' feedback with the objective of refocusing the work program. To respond to the evolving needs of countries, they are undertaking a needs assessment and setting up an open forum to strengthen consultation with countries. The assessment will be carried out with inputs from Non-Annex I Parties.

15. Recognizing the continued and strong emphasis on capacity building from the Conference of the Parties to both the UN Framework Convention on Climate Change, particularly in Decision

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[4] See paragraph 13, *Report of the GEF to the Fourth Session of the Conference of the Parties to the United Nations Framework Convention on Climate Change*, FCCC/CP/1998/12.

[5] GEF financing to support enabling activities in the area of climate change is US$73.89 million. Financing for Non-Annex I countries is US$72.84 million, and financing for Annex I countries is US$1.05 million.

2/CP.4, as well as the Convention on Biological Diversity, the GEF Council agreed that a comprehensive and targeted assessment of capacity building would be timely. Through a strategic partnership, UNDP and the GEF Secretariat, in collaboration with the other Implementing Agencies, the Convention Secretariats, and STAP, have initiated a process leading to a comprehensive study of capacity building needs and a recommended strategy for addressing those needs. The process will draw upon the experiences of the GEF family through its enabling activities (including evaluations of enabling activities and relevant GEF-financed projects) and other projects, as well as the experiences of other bilateral and multilateral institutions that are contributing to capacity building. The initiative should provide both the Conference of the Parties and the GEF Council information on capacity building needs and priorities as well as recommendations for an effective and pragmatic strategy for capacity building.

16. The GEF Council also authorized the CEO, pending the results of this initiative and the approval of a comprehensive strategy for capacity building, to approve revisions/additions to the present scope of the expedited procedures for enabling activities in order to better assist recipient countries to address immediate capacity building priorities consistent with the most recent guidance of the Conference of the Parties (Decision 2/CP.4). With this new decision, the GEF may approve under its expedited procedures for enabling activities assistance up to US$450,000 per country. By the time of COP 5, GEF will have in place guidelines for accessing these additional funds. It is recognized that these resources are unlikely to adequately address all capacity building needs, they should be sufficient to allow countries to move forward with planning and initial assessment of their priority concerns while the proposed capacity building initiative better identifies effective means to move forward on the crucial issue of effectively building capacity in recipient countries.

17. In revising the ongoing enabling activity projects, a recipient country will be able to select activities to address its priority needs from among those identified by the fourth session of the Conference of the Parties (e.g., capacity building for: assessing technology needs; participating in systematic observational networks; preparing a national program to address climate change; conducting national activities for public awareness; designing, evaluating, and managing projects; and facilitating access to information). Furthermore, it must be emphasized that most GEF projects include capacity building components and activities that directly address the country's highest priority needs and target capacity building outputs related to specific objectives identified in the project. While the GEF is making available additional funds under its enabling activity projects as a direct response to COP 4 guidance, it also welcomes country-driven project proposals developed pursuant to the guidance. To date, no specific project proposals have been received for consideration.

18. Funding for Stage II adaptation activities will be made available to particularly "vulnerable countries and regions identified in Stage I activities, and especially countries vulnerable to climate-related natural disasters, taking into account their preparatory adaptation planning frameworks in priority sectors, the completion of Stage I activities, and in the context of their national communications."[6] In making available such resources, the GEF will follow guidance to be provided by the Conference of the Parties on subsequent national communications.

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[6] See Decision 2/CP.4 (FCCC/CP/1998/16/Add.1), *Additional guidance to the operating entity of the financial mechanism*

19. The Conference of the Parties to the UN Framework Convention on Climate Change encouraged the GEF to "make the process for the determination of incremental costs more transparent and its application more pragmatic."[7] The GEF Council also called upon the Secretariat, in consultation with the Implementing Agencies and the Secretariats of the biodiversity and climate change conventions, to continue its work on incremental costs to further clarify definitions and facilitate application of the concept.

20. The GEF Secretariat has sought to base its work on a consultative process that would be as comprehensive as possible and take into account the views of a range of stakeholders who may participate in a GEF project at different stages of the project cycle. As a first step, the Secretariat commissioned the preparation of a scoping/issues assessment related to incremental cost determinations for GEF funded projects.

21. The assessment summarized the opinions and comments of over 30 individuals who were involved in different stages of the GEF project cycle, including: Council Members, Alternates, political and operational focal points, Convention focal points, executing agencies, project directors, NGOs, consultants, task managers and staff from the Implementing Agencies, Convention Secretariats, STAP and GEF Secretariat. The report outlined the main issues and challenges that were identified in the interviews and written submissions as well as suggestions for addressing those challenges.

22. After reviewing the assessment and proposed recommendations, the Council requested the Secretariat to continue its work to make the application of incremental costs more pragmatic by addressing the concerns raised. The GEF Secretariat, together with the Implementing Agencies and the Convention Secretariats, then worked in partnership with the International Institute for Environment and Development, to organize a workshop to provide inputs into the development of guidelines for agreeing upon incremental costs as well as simplified approaches to incremental costs determination in the GEF focal areas. Prior to the workshop, three sets of papers were commissioned which served to focus the discussion of the workshop: country experience papers, focal area papers, and expert review papers. At the workshop, a general consensus emerged on a number of recommendations.[8]

23. Based on the report of the workshop, the Council requested the Secretariat and Implementing Agencies to continue their efforts to make the process of determining incremental costs more transparent and its application more pragmatic. The Secretariat will report back to the GEF Council on this issue at its meeting in December 1999. Specifically, work is proceeding on:

(a) simplifying and better clarifying key conceptual issues integral to the estimation of incremental costs;

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[7] See Decision 2/CP.4 (FCCC/CP/1998/16/Add.1).

[8] The workshop's recommendations can be found on the GEF Website (www.gefweb.org). See *The Report of the GEF/IIED Workshop on Incremental Costs* and the *Note on Incremental Costs*, document GEF/C.13/7, submitted at the May 1999 Council meeting.

(b) articulating guidelines for incorporation in the GEF project cycle to emphasize that estimation of incremental costs should be through an agreement process with the recipient;

(c) applying the incremental cost approach more systematically through logical framework project design;

(d) piloting even more streamlined procedures for medium-sized project; and

(e) developing more "user friendly" materials for outreach and training.

IV. HIGHLIGHTS OF OTHER RELEVANT ACTIVITIES

24. During the reporting period, the GEF has also undertaken the following activities which are of relevance to its portfolio of climate change projects:

(a) *Elements for New Operational Programs.* Elements of two new environmentally sustainable operational programs have been approved by the GEF Council: one on transport and the other on carbon sequestration and other global benefits of integrated ecosystem use. The final version of the operational program on transport will be published in September 1999, and projects are being developed under this program. Elements for the operational program on carbon sequestration and other global benefits of integrated ecosystem management were approved by the GEF Council in May 1999.[9]

(b) *Country Dialogue Workshops.* The Council has approved a project to provide resources for the convening of 50 country dialogue workshops during a three year period. The workshops will include separate training modules that focus on capacity building for project identification, accessing GEF resources, the GEF project cycle, incremental costs, STAP, and other issues relevant to GEF project activities. The workshops will also provide an opportunity for countries to identify their interests, priorities under the conventions and concerns. This series of workshops will be initiated in 1999.

(c) *Renewable Energy Partnership.* For the GEF to achieve the programmatic objectives of the GEF Operational Strategy in climate change, it is crucial that international institutions make fundamental commitments to renewable energy technologies (RETs) within their regular work programs. To help achieve the shared programmatic objectives of the GEF and the World Bank Group in

[9] See GEF/C.13/14, *Elements for an Operational Program on Carbon Sequestration.* The title of the operational program was changed in light of the Council's discussions. The decision made by the GEF Council states "The Council reviewed document GEF/C.13/14, *Elements of an Operational Program on Carbon Sequestration*, and approves the elements as a basis for preparing an operational program, subject to the comments made during the Council meeting and written comments to be submitted to the Secretariat by June 7, 1999 and on the understanding that this program will be fully consistent with the guidance provided by the Conference of the Parties to the Convention on Biological Diversity and the Conference of the Parties to the United Nations Framework Convention on Climate Change."

promoting renewable energy, the GEF Secretariat and the World Bank Group have been developing a progressive strategic partnership. The partnership would aim to commit $200 million in GEF resources for incremental cost support for specific country programs while seeking $600 million in World Bank commitments (through World Bank loans and other sources of finance). A strategic partnership of this form and magnitude would respond vigorously to countries that have made long-term commitments to promote RETs.

(d) *Partnerships with Regional Development Banks*. Cooperation with other bodies to promote the achievement of the purposes of the GEF has long been recognized as essential. In May 1999, the Council approved steps to promote greater participation by the four major Regional Development Banks (African Development Bank, Asian Development Bank, European Bank for Reconstruction and Development, and Inter-American Development Bank) in preparation and execution of GEF projects. The advantages of expanding opportunities for executing agencies include: increasing GEF's capacity to deliver projects; increasing the number of innovative project ideas and diversifying the experience on which the GEF as a whole can draw; and leveraging additional resources for the global environment.

(e) *Heads of Agencies Meeting*. The meeting of the GEF Heads of Agencies was held in March 1999 in Washington D.C. The meeting was attended by the heads of the three GEF Implementing Agencies (UNDP, UNEP, and the World Bank) and the CEO/Chairman of the GEF. The Heads of Agencies underscored the central importance of interagency cooperation and collaboration. While they were pleased with progress so far, they agreed that there is a need for further strengthening of such cooperation and partnership, particularly at the country level.[10]

(f) *Relationship with Scientific and Technical Community*. The GEF Scientific and Technical Advisory Panel (STAP) organized two workshops focused on integrating science and technology into GEF operations. The first, in Brazil in October 1998, was a brainstorming session for the second, which was held in India in January 1999. These workshops not only served to increase awareness of the GEF and climate change, but established a dialogue with global and regional scientific and technical networks, helping facilitate greater participation of the scientific and technical community in GEF work.

(g) *Involvement of Private Sector*. In May, the Secretariat submitted to the Council *Engaging the Private Sector in GEF Activities* (GEF/C.13/Inf.5), which describes how GEF plans to pursue greater collaboration with the private sector, particularly in climate change projects. The Council encouraged the Secretariat and Implementing Agencies to incorporate in project preparation the approaches described in the document.

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[10] See GEF/C.13/Inf.6, *Conclusions of the GEF Heads of Agencies Meeting*.

(h) *Promotion of Technology Transfer*. GEF's efforts to promote technology transfer and market development to enable greater access to energy-efficient and renewable energy technologies are described in a paper presented during the May/June 1999 SBSTA meeting in Bonn. The paper can be found among the documents presented at SBSTA's tenth session.[11]

V. GEF MONITORING AND EVALUATION ACTIVITIES

25. During the reporting period, the GEF published the *Project Performance Report 1998* and the *Progress Report on Actions to Implement the Recommendations of the Study of GEF's Overall Performance and the Policy Recommendations for the Second Replenishment Period*. In addition, the GEF is undertaking a review of its support to initial national communications from Non-Annex I countries and developing indicators for projects in the area of climate change.

A. Project Performance Report 1998

26. The *Project Performance Report 1998* presents the results of the Project Implementation Review 1998 (PIR). In addition, for the first time, the report goes beyond the implementation review and draws on additional information and insights about the performance of GEF's programs for evaluations and other studies. This broader focus complements the Program Status Review prepared for each Operational Program, and provides an assessment of important cross-cutting issues and lessons identified from implementation experience.

27. The Project Implementation Review for 1998 covered 119 projects, 25 of which were included for the first time in this review. Twenty-eight percent of the projects reviewed were rated "highly satisfactory" by the Implementing Agencies, 59 percent were rated "satisfactory," and 13 percent were rated "unsatisfactory." Fifteen projects had improved ratings in comparison to their ratings in 1997, while 11 projects had lower ratings. The principal causes of unsatisfactory performance were lower than expected implementation capacity in executing agencies; participative approaches taking more time than expected; changes in market conditions, especially related to climate change projects; reductions in government counterpart and other contributions; lack of government commitment to project activities; and procurement delays.[12]

28. Of the 119 projects reviewed, 42 projects were in the area of climate change. They focus on one or more of five types of renewable energy sources: biomass gasification, wind, solar photovoltaics or water heating, solid waste, and geothermal. A consistent conclusion from previous reviews of the climate change portfolio—the importance of a favorable policy framework and incentives for the adoption of alternate energy and more energy-efficient products and technologies—was again the topic of substantial discussion in the 1998 PIR reports. Several projects positively influenced policies and regulations that have led to greater private sector participation and investments.[13]

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[11] FCCC/SBSTA/1999/MISC.5, Paper No. 10.

[12] See *Project Performance Report 1998*, paragraph 3, page V.

[13] See *Project Performance Report 1998*, paragraph 29, page 12.

29. The Project Implementation Review also highlighted three cross-cutting issues selected for special attention in the 1998 review—sustainability, leveraging and capacity building.

(a) Sustainability: It is proving more difficult than expected to sustain the results achieved and activities supported by GEF funding. Five ingredients for ingredients for sustainability emerged from the project reports and discussions during the implementation review: 1) a policy framework that provides appropriate incentives; 2) long-term funding sources; 3) public awareness and understanding of the benefits of new approaches and activities; 4) local ownership; and 5) an adequate institutional framework and the ability of institutions, including private businesses, to carry out effectively and on a continuing basis their principal functions.

(b) Leveraging: GEF should adopt a definition of leveraging for its programs and projects that reflects financial resources and actions catalyzed by the GEF activities.

(c) Capacity building: The review concluded that more emphasis should be placed on identifying specific capacity-building needs, so project design and implementation can be tailored to address key constraints and institutions. Considerably more attention is needed on defining the results and qualitative impacts of GEF's capacity building efforts.[14]

B. Progress Report on Actions to Implement the Recommendations of the Study of GEF's Overall Performance and the Policy Recommendations for the Second Replenishment Period

30. The *Study of GEF's Overall Performance* was prepared to assist the Assembly in its review of the GEF. The study addresses a large number of issues related to the GEF's performance from 1994 through 1997. The study made 19 recommendations, of which seven were "priority recommendations." At its meeting in March 1998, the GEF Council requested the GEF Secretariat, in consultation with the Implementing Agencies, to prepare for Council review and approval an action plan and time-table for responding to the recommendations of the study.

31. In response to Council request, the GEF Secretariat prepared a *Progress Report on Actions to Implement the Recommendations of the Study of GEF's Overall Performance and the Policy Recommendations for the Second Replenishment Period*. The Council approved the proposed actions and requested the GEF Secretariat and the Implementing Agencies to take the necessary steps to carry out the approved actions.

C. Review of the GEF support to initial national communications from Non-Annex I Parties

32. At the request of its Council, the GEF has just initiated a comprehensive review of its support to initial national communications from Non-Annex I Parties to UNFCCC, termed

[14] See *Project Performance Report 1998*, page VI.

"Enabling Activities." The purpose is to take stock of experiences and extract lessons for future support. Specifically, the study is expected to examine:

(a) the effectiveness of this modality of support;
(b) the effectiveness and efficiency of GEF's operational procedures;
(c) the influence of the support on broader capacity building and/or planning; and
(d) best practice from country experience.

33. The proposed methodology comprises a review of all relevant documentation, the views of the Parties as indicated in Decision 12/CP.4, consultation with all GEF entities and the UNFCCC Secretariat, as well as studies in a sample of Non-Annex I countries. The GEF will submit the report to the COP when it is finalized.

D. Indicators for climate change projects

34. The GEF is developing performance indicators for its climate change activities. Specific sets of indicators are being identified for the three Operational Programs in the climate change area. Program-level indicators are used to measure and communicate progress toward strategic organizational objectives. An organizational objective would be an answer to questions such as: "What do we expect the GEF to have accomplished 15 years from now as a result of its climate change programs?" Program indicators would help the GEF answer questions such as: "How will we know if we have accomplished this?" and (say, in five years) "How much progress have we made?" Adding up performance measures from the individual projects that the GEF finances provides some of this answer. But the GEF carries out a number of other activities that affect climate change, for example, raising awareness through its communications and outreach programs, encouraging in various fora a more active national and international response to the issues of climate change, stimulating the provision of resources to replicate or expand activities begun with GEF assistance, and disseminating information on "best practices." Conceptually, these are also a part of GEF's climate change activities, and program indicators are a way to capture their effectiveness when measuring the GEF's overall results in this focal area.

35. The first set of indicators is expected to be available by August 1999. These indicators would be then refined by piloting and discussions with GEF stakeholders during 1999 and 2000, before being applied to understand the impact of GEF Operational Programs.

Annex A

LIST OF REPORTS PREVIOUSLY SUBMITTED BY THE GEF COUNCIL TO THE CONFERENCE OF THE PARTIES TO THE UNFCCC

Report of the Global Environment Facility to the Intergovernmental Negotiating Committee for a Framework Convention on Climate Change on the Restructured Global Environment Facility (A/AC.237/89, December 14, 1994)

Report of the Global Environment Facility to the Conference of the Parties on the Development of an Operational Strategy and on Initial Activities in the Field of Climate Change (FCCC/CP/1995/4, March 10, 1995)

Report of the Global Environment Facility to the Second Session of the Conference of the Parties to the United Nations Framework Convention on Climate Change (FCCC/CP/1996/8, June 27, 1996)

Report of the Global Environment Facility to the Third Session of the Conference of the Parties to the United Nations Framework Convention on Climate Change (FCCC/CP/1997/3, October 31, 1997)

Report of the Global Environment Facility to the Fourth Session of the Conference of the Parties to the United Nations Framework Convention on Climate Change (FCCC/CP/1998/12, September 29, 1998)

Annex B

SYNTHESIS OF PROJECTS UNDER IMPLEMENTATION IN THE AREA OF CLIMATE CHANGE

1. The Secretariat, in consultation with the Implementing Agencies, is monitoring progress in the operational programs, in accordance with the criteria that were established for each. The first review of the programs began in February 1998 and was conducted through the focal area Task Forces that comprise representatives of the three Implementing Agencies and a chair from the Secretariat. Recognizing the early state of program implementation, the purpose of the ongoing review was:

(a) to record progress in meeting stated objectives;
(b) to identify current gaps;
(c) to record the current pipeline;
(d) to identify strategic and operational policy issues;
(e) to estimate areas of country driven demand within the programs; and
(f) to match program gaps with country demand in order to manage the pipeline effectively.

2. The results of this review, presented below, were included in the GEF Corporate Business Plan[1] submitted to the GEF Council and used to project program resource requirements over the business planning period, to identify the types of operations which need to be emphasized for GEF to achieve programmatic impact, and to identify necessary elements in the complementary work programs of the other GEF units.

Frameworks for monitoring progress and evaluating impacts

3. The operational programs are based on a program logical framework: projects produce outputs; the outputs of many complementary projects (whether GEF financed or otherwise) lead to the expected outcomes; and these outcomes address the program objectives. Success at each stage can be monitored, and examples of the monitoring and evaluation methodologies and tools needed to do so have been described in the program documents.[2]

4. Two specific steps are being taken to improve programmatic performance:

(a) GEF-wide and program-level monitoring frameworks, and performance indicators are being developed by the monitoring and evaluation unit in conjunction with the Task Forces; and
(b) project preparation (such as that funded by PDF resources) will henceforth demonstrate clearly how the project will contribute to the desired programmatic impact, e.g., baseline assessments, the complementarity of other efforts in removing barriers and in financing follow-up investments in specific energy markets, and the extent to which costs of a target technology will be lowered as the result of the project.

Monitoring progress

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1 See *GEF Corporate Business Plan FY00-FY02* (GEF/C.12/11, September 1998), GEF Council October 14-16, 1998, Agenda Item 12.

[2] *Operational Programs*, Global Environment Facility, Washington, D.C., June 1997

5. The main factors influencing the development of the portfolios will be:
   (a) the influence of new mechanisms for climate change support;
   (b) the introduction of contingent financing to encourage economically attractive energy conservation, energy efficiency, and renewable energy projects;
   (c) the development of a strategic partnership with the World Bank to leverage support for renewable energy and to provide support on a programmatic basis;
   (d) management of the operational program for reducing the long-term costs of low greenhouse gas-emitting energy technologies (Operational Program 7) to ensure that available funds are concentrated in such a way that programmatic benefits are reasonably assured; and
   (e) the phasing in of the two new programs in the climate change area.

Operational Program 5: Removal of barriers to energy efficiency and energy conservation

6. The resources allocated within this program have been below the previously expected $50 million to $100 million per year. The main imbalance appears to be in the type of project financed: currently generic demand-side management (DSM) programs account for two thirds of the portfolio, and there has been a tendency for project types that win GEF approval to be repeated in other countries (e.g., the proposals for energy service companies, or "ESCOs"). The main challenges in FY00-FY02 will be to facilitate replication of successful GEF projects using non-GEF resources, rather than to repeat finance projects that have already been well demonstrated, and to apply the most innovative financing modalities where appropriate.

7. *Replication.* First, there is a need to build on the solid work so far by encouraging dissemination of results and replication by others. This operational program, more than any other, is based on the assumption that after catalytic GEF action, a highly rewarding market will open. Once this has been demonstrated, it would be clearly in the national interest of the country (and other similar countries) to replicate the activity, and this would be clearly justified without GEF support. It is expected then that the nature of GEF support would shift over time from the initial demonstrations of barrier removal to dissemination with some assistance with replication (including implementing agencies support from their regular programs and facilitated donor support).

8. *Innovative financing modalities.* Second, because the investments made possible by "barrier removal" are expected to be highly attractive financially, it may be possible to shift support from barrier removal activities such as technical assistance to contingent finance of the investments. This would be highly cost-effective, because GEF would not need to make financial transfers in the most common situations (where projects prove to be self-liquidating); lead to a more accurate assessment of incremental costs because these would be measured after the activity has been implemented rather than estimated in advance; and highly catalytic, because countries would be freed of the risk that a new technique will impose additional costs on their development. Contingent GEF support in the form of guarantees would encourage commercial financiers to make the necessary capital investments in new energy conservation methods even though these are higher in cost than the alternative less efficient methods. In most cases GEF funds could either be recovered or reinvested through revolving funds in similar activities. Wider application of such

approaches (e.g., contingent loans, contingent grants, and partial risk guarantees) would leverage even more private sources by being tailored to the specific market perceptions. The Secretariat is currently working with the World Bank to analyze this modality and will assist the Implementing Agencies in developing for Council consideration specific project proposals incorporating contingent financing.

Operational Program 6: Promoting the adoption of renewable energy by removing barriers and reducing implementation costs

9. The resources allocated to this program have been lower than the expected average commitment of $100 million to $150 million for five to ten years ($29 million in FY97; $45 million in FY98). This program has promoted a wide variety of renewable energy technologies ranging from low-temperature solar thermal; biomass; geothermal; wind, hydro, and photovoltaic power for rural electricity supply; and grid-connected wind farms and photovoltaics.

10. It has been difficult on occasions to design projects that will have the intended programmatic impact, because it is necessary to identify all the main market barriers and to provide assurance that they will all be removed – either through the GEF project or through complementary efforts. Discussions are now underway with the World Bank to develop for Council consideration, strategic partnerships with requesting countries to transform entire markets for renewable energy. The first proposals, which would set the details of this modality, are expected in December 1999. If approved, the main challenge in FY00-FY02 for this Operational Program would be to develop and build such integrated strategic partnerships on country and Implementing Agency commitments. These are expected to accelerate the rate of GEF resource transfers to quality market-transforming projects, thereby greatly increasing programmatic impact.

Operational Program 7: Reducing the long-term costs of low greenhouse gas-emitting technologies

11. The allocations to this program had been expected to be about $100 million in FY97 and to double in five to ten years. At present the rate is lower, $41 million in FY97 and only project preparation funding in FY98, although the Implementing Agencies anticipate that their pipeline will grow to about $200 million for the next three years.

12. The projects in the current portfolio are in Brazil and India, while projects for China, Egypt, Jordan, Morocco, and Kazakhstan are expected to enter the pipelines shortly. Projects have been approved for biomass gasification and for solar-thermal power generation. Fuel cell bus projects are being prepared for four cities in Mexico, Egypt, Brazil, and India, and preparation has already taken place in China. This still leaves some gaps – technologies in the approved scope of this program for which no proposals have been received. These gaps are: biomass feedstock for liquid conversion processes, large-scale grid-connected wind-power, and fuel cells for distributed combined heat and power.

13. The main operational challenge in FY00 to FY02 though is neither to increase the rate of allocation as such nor to fill the technology "gaps", but to ensure a critical mass for whatever technologies are supported (i.e., to ensure that there will be enough projects of a given type to

have the cost-reducing impact that is the rationale for this program). This portfolio issue will now be addressed in the project preparation phase of new projects (to outline the portfolio assumptions for cost reductions of the specific technology); through a more active search for country-driven opportunities in these technologies that can be supported by GEF, other donors, or the regular work programs of the Implementing Agencies; and through sequencing GEF support to ensure that diversifying the scope of technologies does not come at the expense of obtaining a critical mass for the technologies already supported.

14. There is also a challenge to financial planning, because the investments in Operational Program 7 are few but costly. The projected allocations from year to year are therefore quite lumpy. Even implementation creates challenges such as projecting disbursements and scheduling GEF encashments. For example, if three quick disbursing projects of $40 million apiece experience delays, $120 million in disbursements could be shifted between financial years.

Enabling activities

15. One hundred and thirteen countries have been supported with climate change enabling activities so far, and the first round of these activities should be fully covered by the end of FY99.

Short term response measures in climate change

16. Unlike projects in the Operational Programs, short term projects are not reviewed on their likely programmatic impacts but as individual low risk priority projects that are expected to be extremely cost-effective.[3] It was also anticipated that such projects would remain a relatively modest proportion of the portfolio, and in fact they constituted only 16 per cent of the climate change portfolio until February 1998.[4]

17. The main challenge has been to demonstrate that the proposals were the country's "highest priority for funding," in the absence of a National Communication to the FCCC. Now that some such reports have been submitted, this may be easier. Otherwise, other indicators of country ownership will need to be rigorously applied.

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[3] *Operational Strategy*, page 38.

[4] See *Operational Report on GEF Programs*, Global Environment Facility, Washington, D.C., October 1998